

The Greek Crisis and the European Project

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What is Europe?

Political purposes: a “fusion of interests”

Economic means: fundamental freedoms

A history of crises

Wars

Democratic revolutions

Enlargements

Currency crises

Financial crises

A history of solutions

Europe will be forged in crises and will be the sum of the solutions adopted for those crises.

—Jean Monnet

Institutional arrangements

1957 Goods, services, labor

1968 No internal tariffs, common external

1979 European Monetary System

1988 Capital, *erga omnes*

Forged in geopolitics

German unification, 1988-89

Mitterrand and Kohl

And Pöhl

Pöhl's preconditions

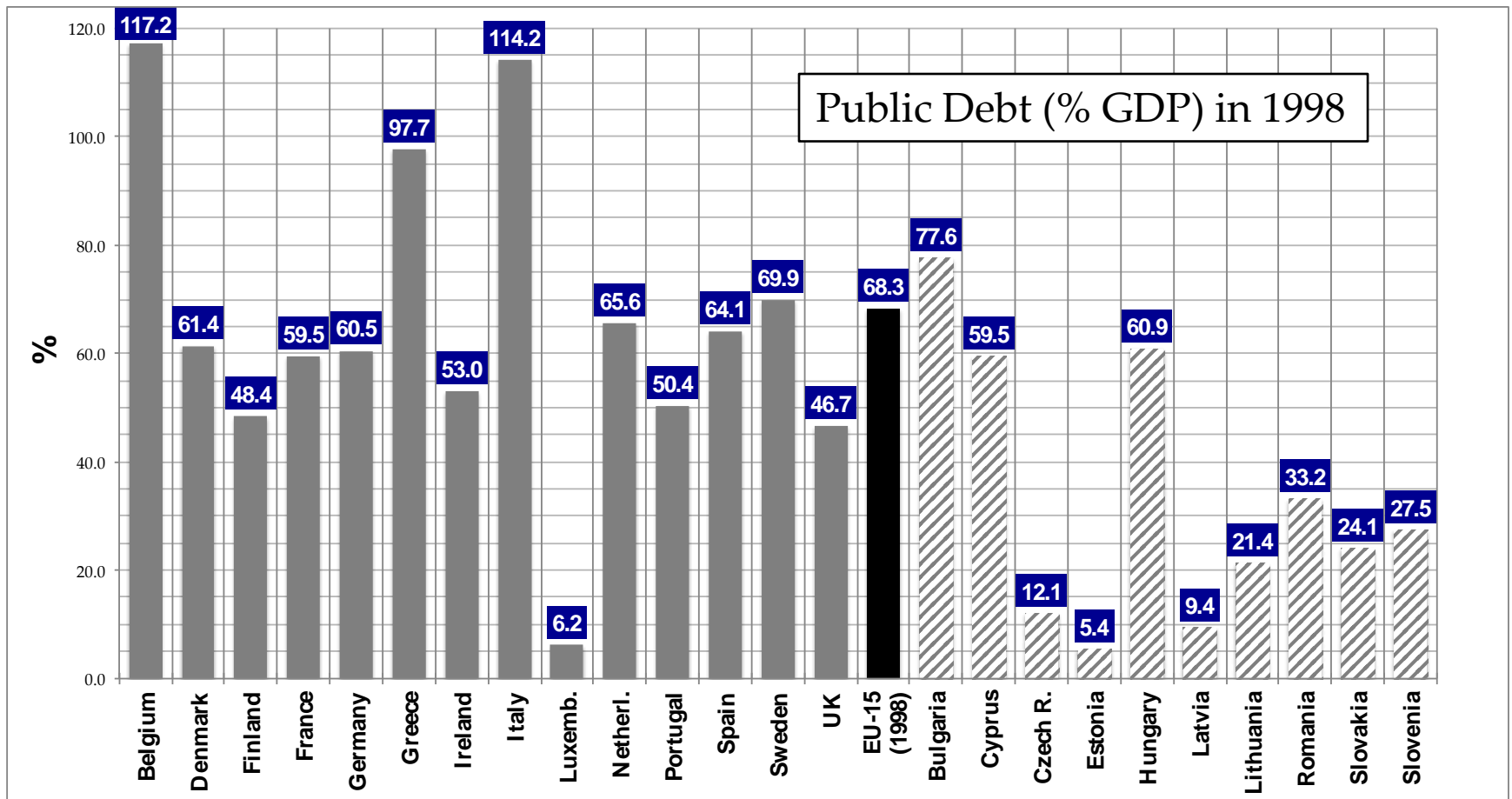
Central bank independence

Capital liberalization

Strict convergence criteria: 1.5/3/60

Fiscal centralization with no bail-outs

Maastricht



Foundations of the crisis

Monetary union without fiscal union

Arbitrary, finessed convergence criteria

Weak governance after the euro

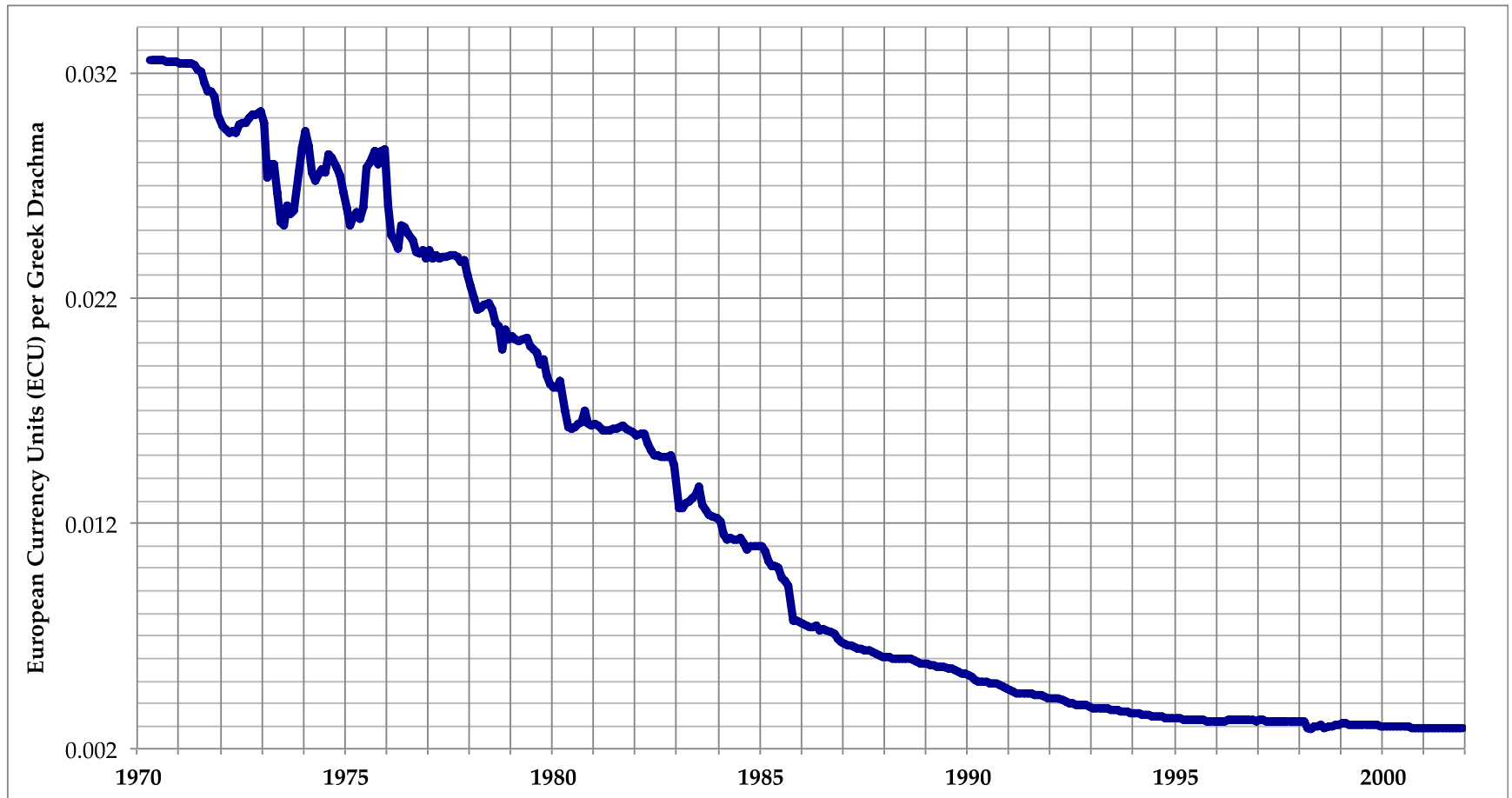
Over-borrowing (and over-lending?)

Sovereign risk

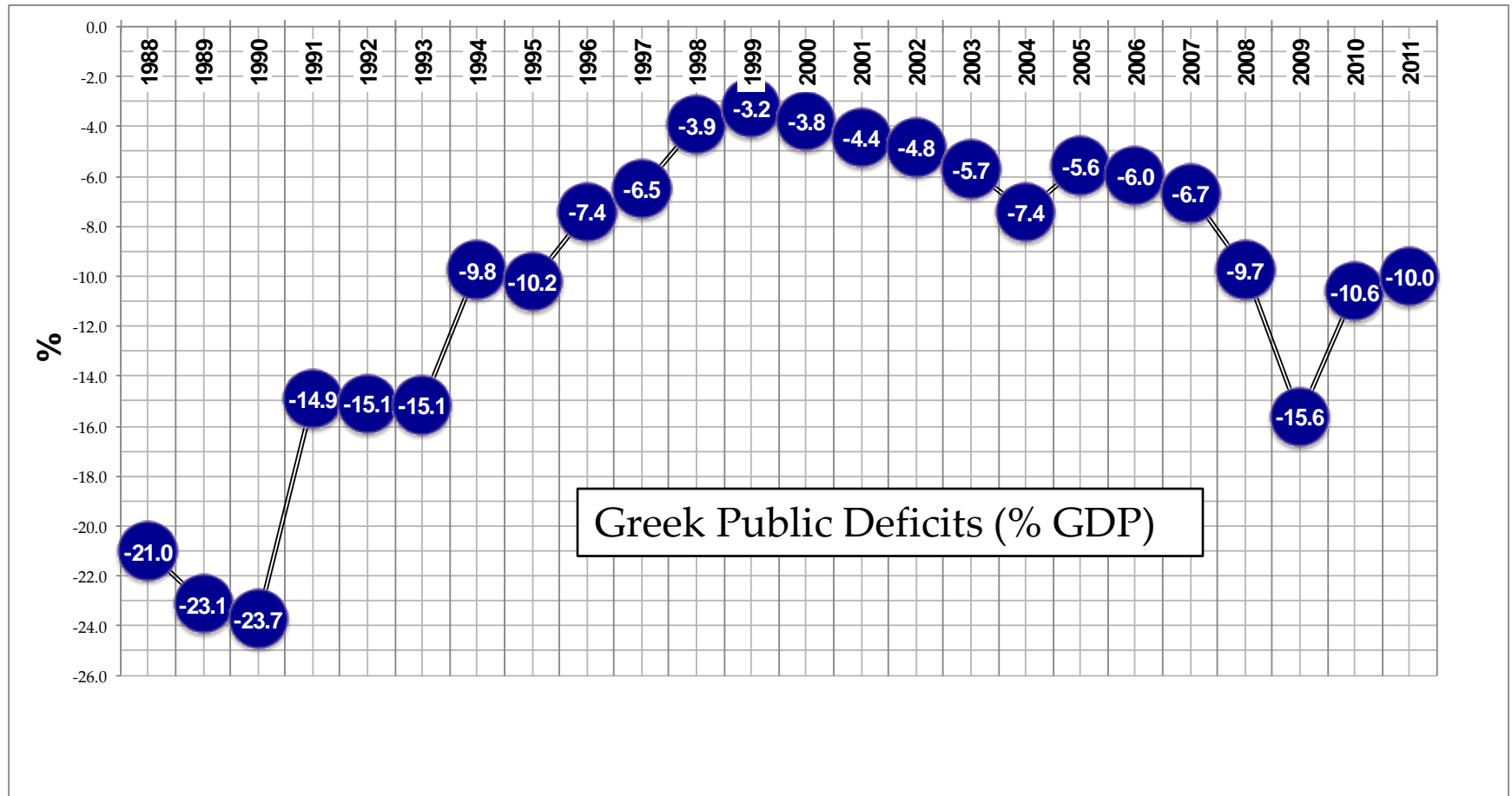
Exchange rate

Default

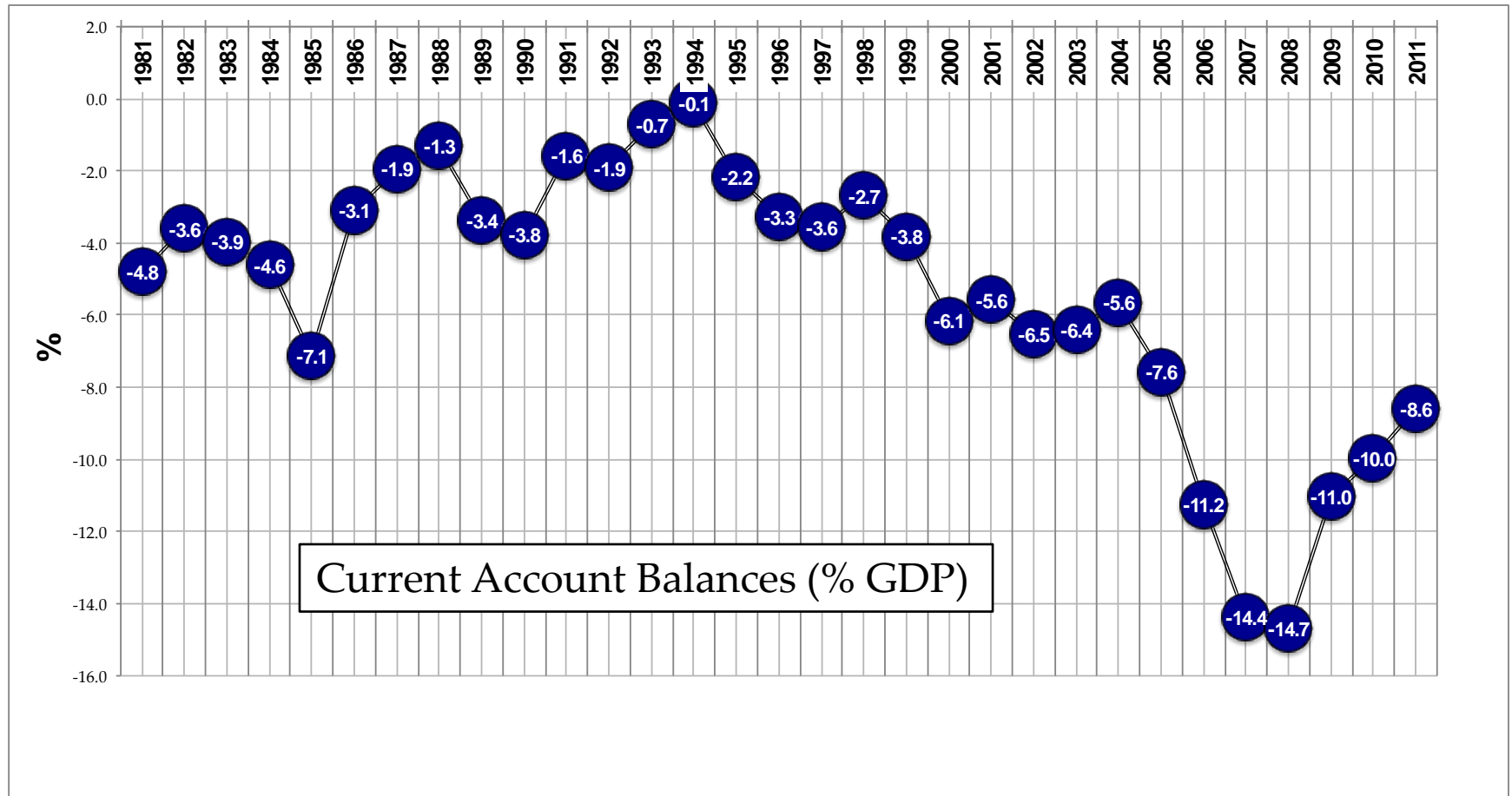
The drachma before the euro



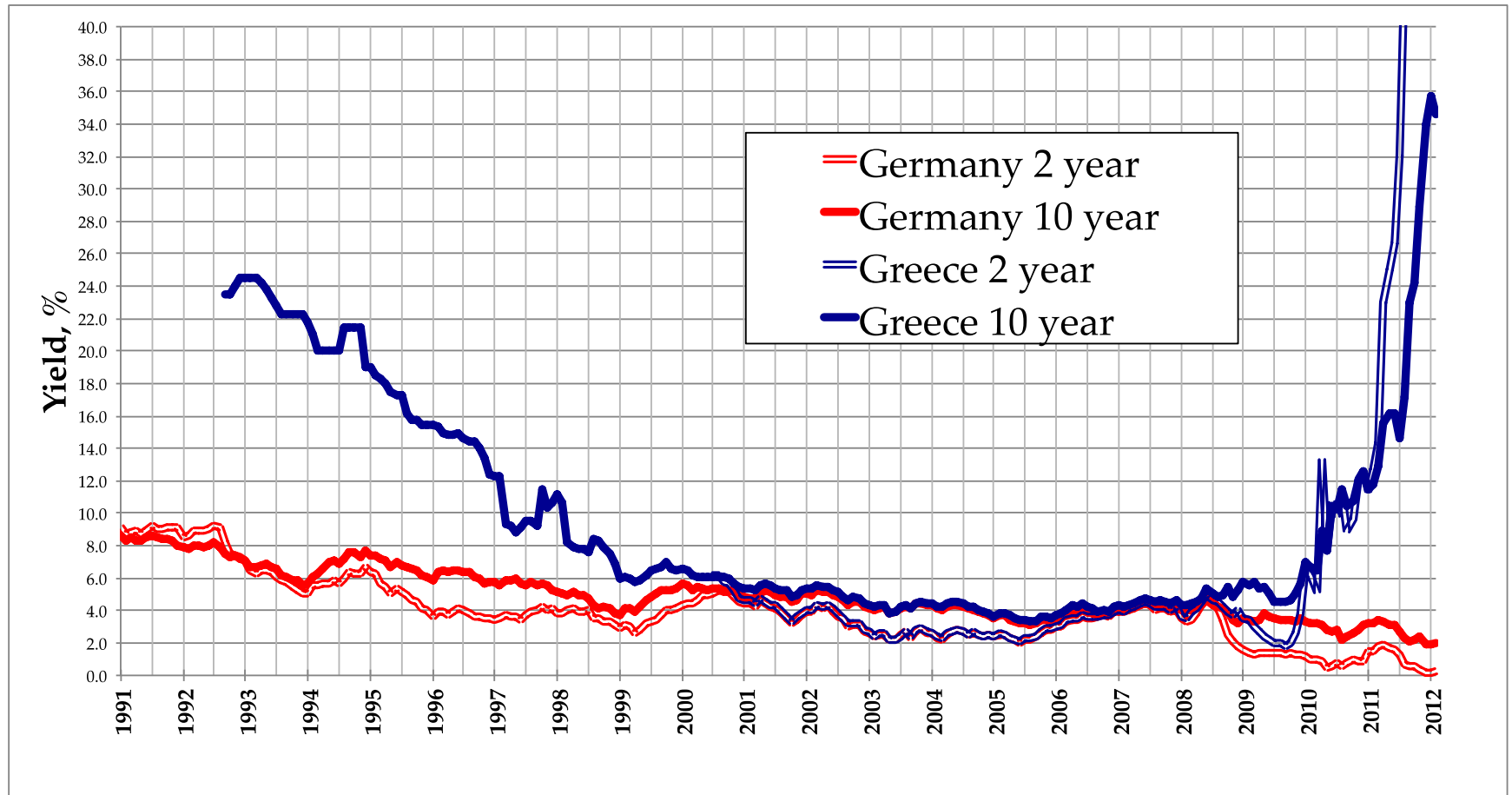
Sovereign borrowing



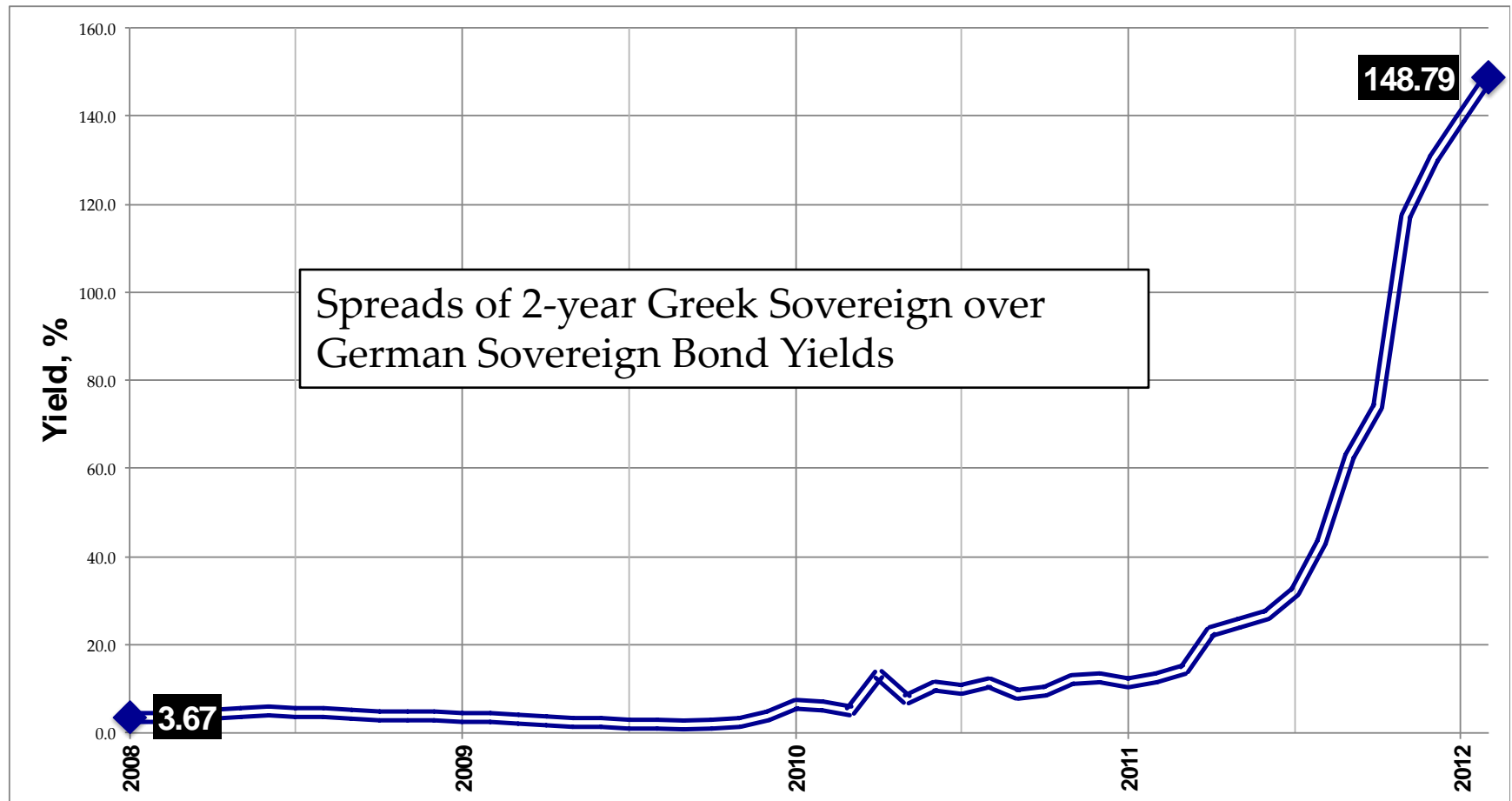
National borrowing



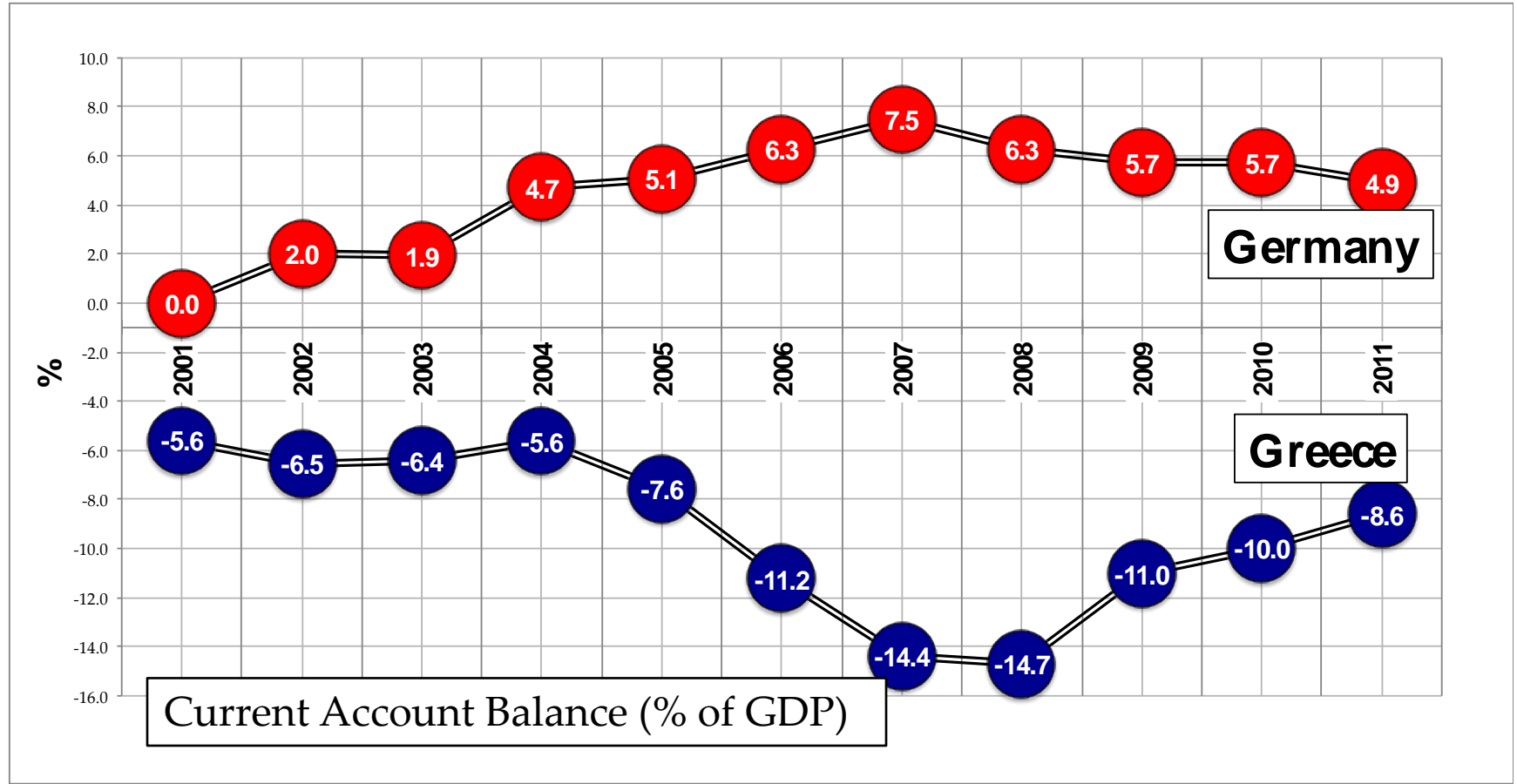
Is Greece riskier than Germany?



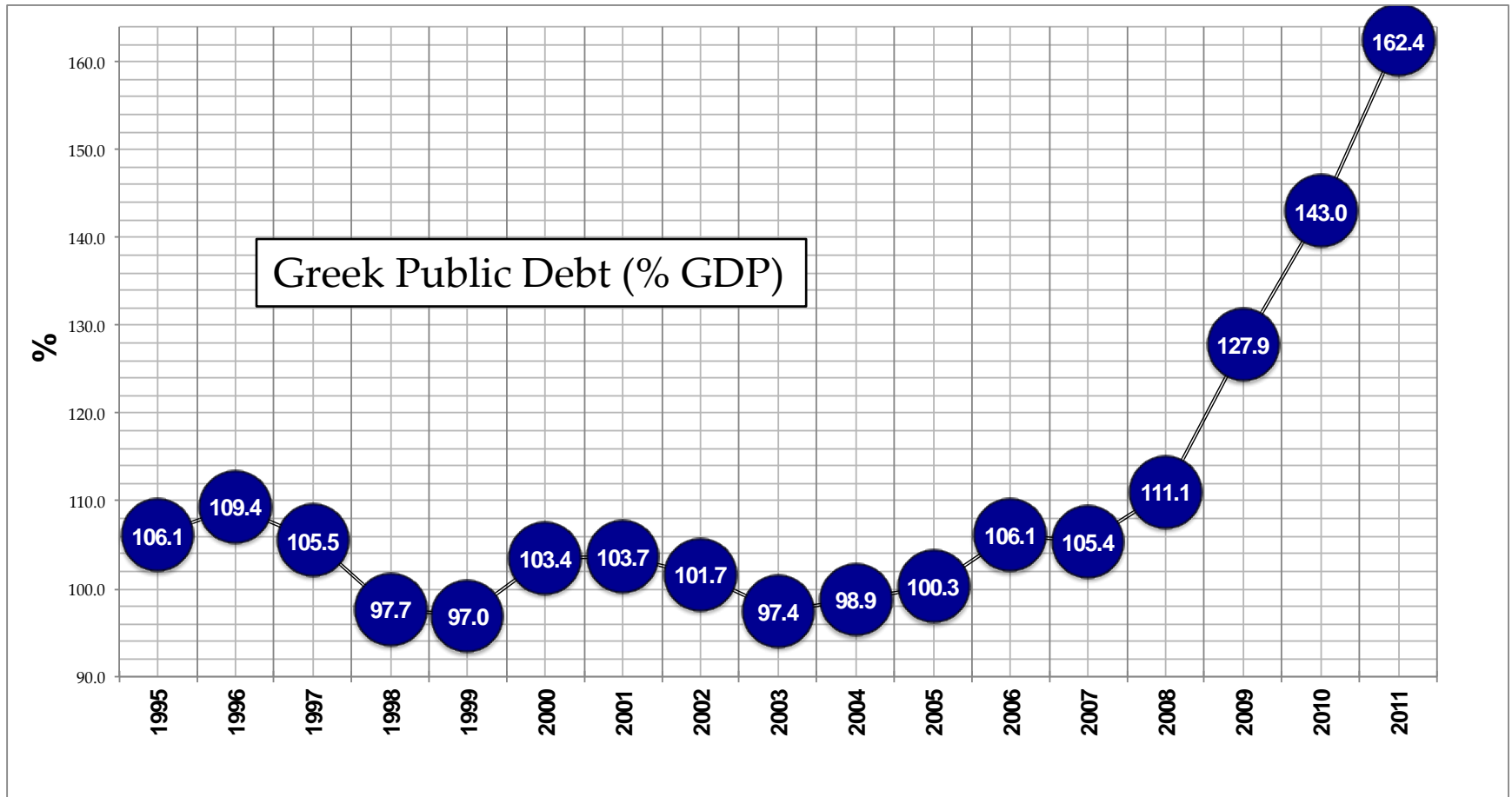
Greece is riskier than Germany.



Can everyone be Germany?



An unsustainable path



Blame and responsibility

The Greeks, who borrowed

The markets, which lent

Europe, which made it all possible

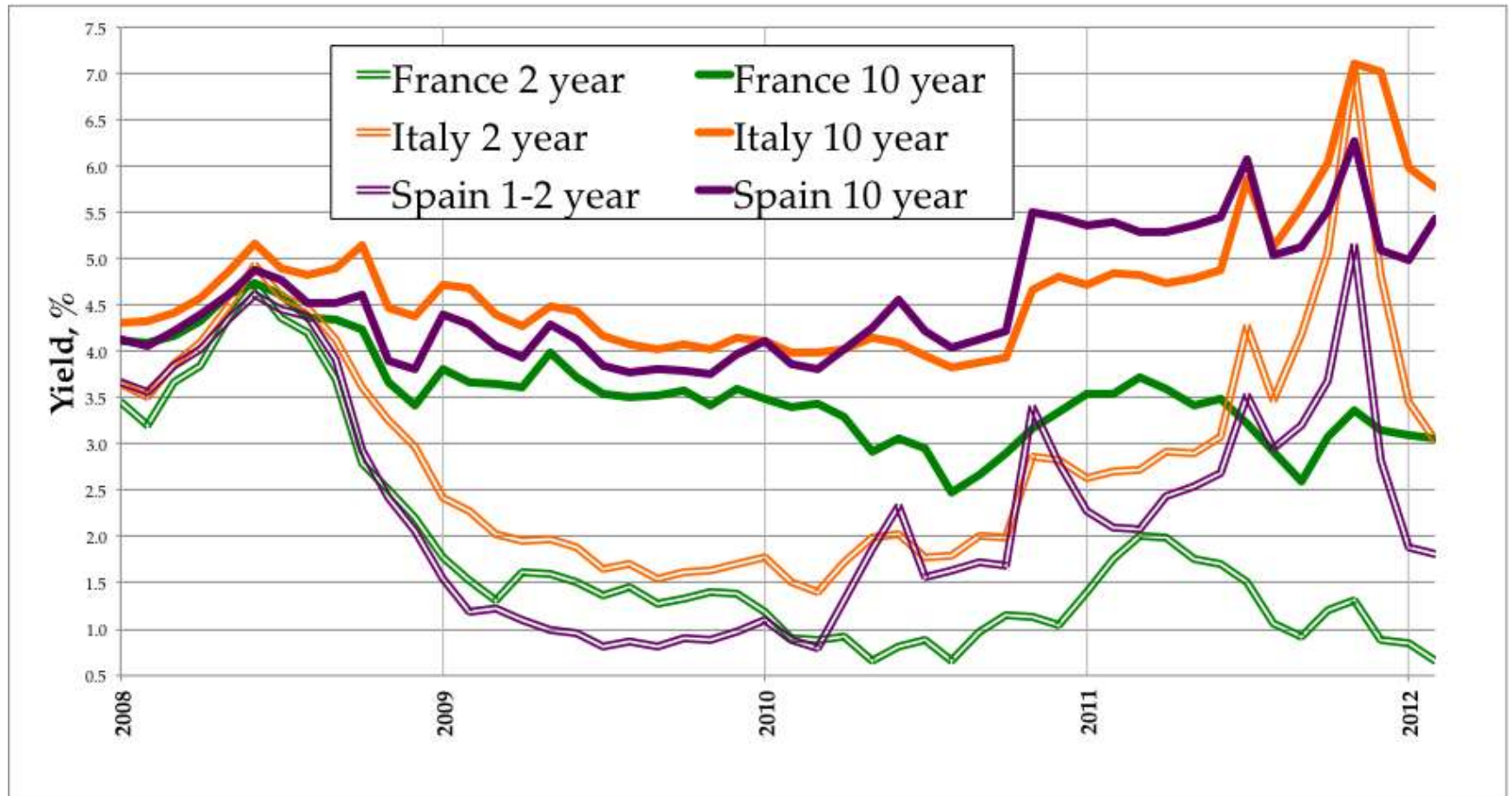
Who should pay for this mess?

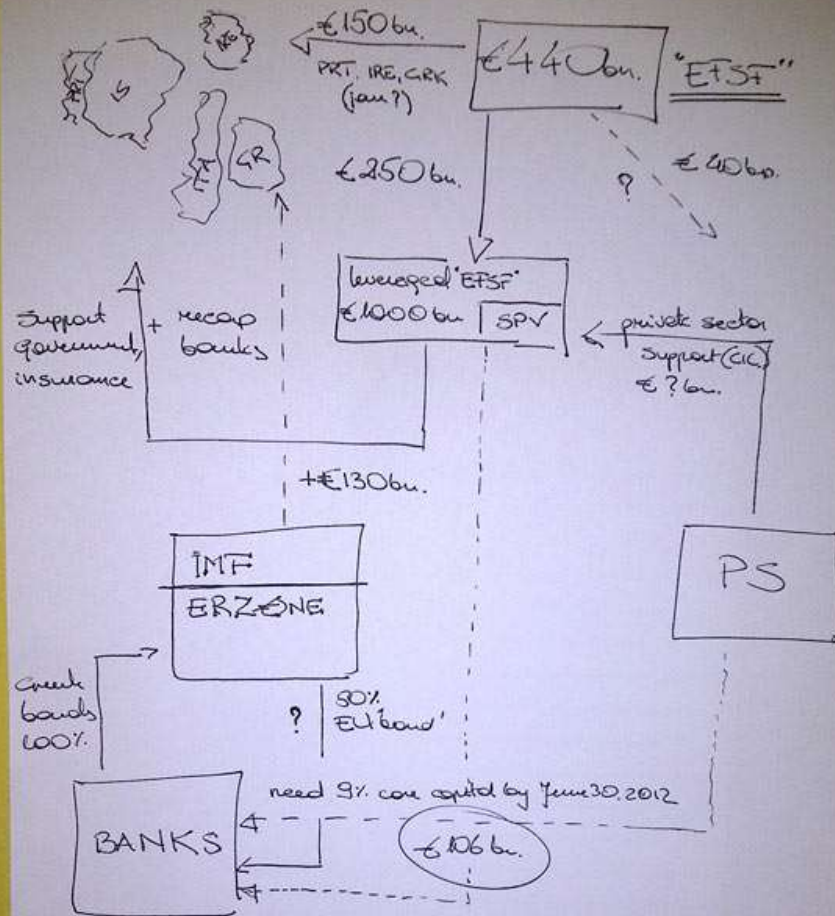
The Greeks, who have to pay forever

The markets, which have to take a haircut

Europe, which cannot afford chaos

Contagion





1. GREECE

Wintedown
+
New loans
(IMF; amouane)

2. BANKS

Recap
(EFSF, PSI, Gov.)

COUNTRIES
3. OTHER EUROZONE

Guarantees
(EFSF)

4. ?



Scenarios

I Chaos in Greece and Europe

II Contained Chaos in Greece

III Misery in Greece, Muddling in Europe

But Daedalus abhorred the Isle of Crete—
and his long exile on that sea-girt shore,
increased the love of his own native place.

As he spoke
he fitted on his son the plumed wings
with trembling hands, while down his
withered cheeks the tears were falling.
—Ovid



Daedalus and Icarus, Charles Paul Landon (1760-1826)



The Fall of Icarus, Carlo Saraceni (1585-1620)



Landscape with the Fall of Icarus, Pieter Bruegel (1525-1569)